Roth Conversion with Reverse Mortgage

Case Study

Client Scenario

The client's a 72 year-old recently retired doctor. His income in retirement has dropped significantly, and he's in a lower tax bracket.

His advisor recommends a Roth Conversion of a $3 million IRA. The conversion will be accomplished in 3 years at $1 million in conversion per year.

Tax-bite for conversion is a total of $480,000 over 3 years. The client has a $1 million house, so the advisor recommends a HECM (Home Equity Conversion Mortgage), also known as a reverse mortgage. The HECM will provide approximately 85% of the tax bill.

Results

- Client deploys an unused asset to manage the tax
- Most of the $3 million in invested funds is retained
- Invested funds in Roth IRA not subject to RMDS
- Invested funds in Roth IRA can be withdrawn tax-free
- Invested funds in Roth IRA grow tax-free
- Invested funds in Roth IRA expected to provide more time in the market
- Reverse mortgage requires no monthly principal and interest payments for maximum cash flow

Calculations based on a 1-year CMT, annually adjusting program with an initial interest rate of 2.675%. Maximum APR (Annual Percentage Rate) 7.675% as of 05/21/21. Rates subject to change.

Borrower must maintain home as primary residence and remain current on property taxes, homeowner's insurance, the costs of home maintenance, and any HOA fees.

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